

## Message Text

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ORIGIN ARA-14

INFO OCT-01 ISO-00 EB-08 SIG-02 AGRE-00 COME-00 TRSE-00

OMB-01 STR-05 SP-02 L-03 H-02 CIAE-00 INR-07

NSAE-00 AID-05 /050 R

DRAFTED BY ARA/ECP:WDBURSON:LM

APPROVED BY ARA/ECP:SHROGERS

EB/ORF/TRP:DBURNS

-----108913 210654Z /10

R 201952Z DEC 77

FM SECSTATE WASHDC

TO ALL AMERICAN REPUBLIC DIPLOMATIC POSTS

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E.O. 11652: N/A

TAGS: ETRD, XM

SUBJECT: EFFECT OF U.S. SUGAR POLICY ON LATIN AMERICA

REF: LIMA 10441 (NOTAL)

1. NUMEROUS ASSERTIONS HAVE BEEN MADE CONCERNING THE EFFECT OF RECENT U.S. SUGAR ACTIONS ON LATIN AMERICA AND THE CARIBBEAN. VARIOUS LATIN AMERICAN OFFICIALS HAVE STATED THAT THEIR COUNTRIES WILL SUFFER SUBSTANTIAL EXPORT REVENUE LOSSES. OAS SECRETARY GENERAL ORFILA IN A JOURNAL OF COMMERCE ARTICLE DECEMBER 12 ESTIMATED THE LOSS AT DOLS 350-500 MILLION. EARLIER HE HAD CALLED THE INCREASED TARIFF AND FEE "REVERSE AID; AND SUGGESTED THE U.S. REBATE THEM TO LATIN AMERICAN EXPORTING COUNTRIES.

2. ARA/ECP HAS UNDERTAKEN AN ANALYSIS OF THE EFFECT OF THE RECENT U.S. SUGAR ACTION ON LATIN  
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AMERICAN COUNTRIES. THIS STUDY, WHICH TAKES INTO ACCOUNT DISCUSSION WITH NUMEROUS OFFICIALS OF OTHER USG AGENCIES, SUGAR IMPORTERS, AND PRIVATE SECTOR SUGAR ANALYSTS, CONCLUDES THAT THE EFFECT, IF ANY, ON LATIN AMERICA WILL BE

SLIGHT. FOLLOWING ARE HIGHLIGHTS OF THE ANALYSIS

WHICH POSTS MAY DRAW ON AS NECESSARY IN DISCUSSING THE SUGAR SITUATION. FULL TEXT WILL BE POUCHED.

3. THE INCREASED TARIFF AND FEE WILL NOT IN THEMSELVES SIGNIFICANTLY AFFECT THE QUANTITY OF SUGAR IMPORTS FROM LATIN AMERICA. NEITHER U.S. CONSUMPTION NOR U.S. PRODUCTION IS EXPECTED TO CHANGE AS A RESULT OF THE PRICE SUPPORT PROGRAM. TOTAL DEMAND FOR IMPORTS HAS NOT CHANGED BUT SOME IMPORTS WHICH WOULD HAVE BEEN MADE NEXT YEAR HAVE BEEN SHIFTED TO 1977. ANTICIPATION OF A DOMESTIC PRICE PROGRAM ACCELERATED THIS SHIFT, BUT IT IS ALSO ATTRIBUTABLE TO IMPORTERS' EXPECTATIONS OF HIGHER 1978 PRICES AND EXPORTERS' PLACING STOCKS ON THE MARKET PRIOR TO THE EFFECTIVE DATE OF THE INTERNATIONAL SUGAR AGREEMENT. U.S. IMPORT CONSUMPTION OF SUGAR IS RELATIVELY STABLE AT ABOUT 4.7 MILLION TONS. IMPORTS IN 1977 ARE EXPECTED TO BE ABOUT 5.2 MILLION TONS. THIS INCREASED LEVEL OF STOCKS IN THE U.S. WILL BE DRAWN DOWN IN 1978 AND CORRESPONDINGLY REDUCE 1978 IMPORTS TO AROUND 4.2 MILLION TONS.

4. IT HAS OFTEN BEEN ASSUMED THAT THE UNILATERAL U.S. TARIFF-FEE ACTION WOULD RESULT IN DEPRESSED UNCLASSIFIED

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WORLD MARKET PRICES. IN FACT, PRICES HAVE IMPROVED SUBSTANTIALLY SINCE THE TARIFF-FEE ANNOUNCEMENT. AFTER PEAKING AT 10 CENTS IN APRIL, SUGAR PRICES GRADUALLY DECLINED THROUGH OCTOBER TO 7 CENTS. DURING THE WEEK PRIOR TO THE ANNOUNCEMENT SPOT PRICES DROPPED SHARPLY TO 6 CENTS. THIS RAPID DECLINE WAS APPARENTLY DUE TO CONCERN OVER TECHNICALITIES OF THE PROGRAM (SUCH AS FEAR THERE MIGHT NOT BE A GRACE PERIOD FOR SHIPMENTS EN ROUTE) RATHER THAN TO CONCERN OVER BROAD POLICY QUESTIONS. IMMEDIATELY AFTER THE ANNOUNCEMENT PRICES BEGAN A STEADY RECUPERATION. THE LONDON SPOT PRICE (NEW YORK SPOT PRICE HAS BEEN SUSPENDED) IS NOW ABOVE 8 CENTS, FOB CARIBBEAN. FUTURES PRICES IN LONDON AND NEW YORK HAVE ALSO RISEN STEADILY. PRICES APPEAR TO HAVE STARTED TO MOVE UP FOLLOWING SUCCESSFUL NEGOTIATION OF AN ISA IN MID-OCTOBER.

AFTER THE MOMENTARY DROP IN NOVEMBER, THE CONTINUING CLIMB PROBABLY REPRESENTS MARKET CONFIDENCE THAT THE ISA MECHANISM WILL BE SUCCESSFUL IN REDUCING SUGAR SUPPLIES ON FREE MARKET. AS EARLY AS AUGUST SUGAR

EXPERTS WERE PREDICTING A 9-CENT PRICE IN JANUARY WITH AN ISA AND A 6-CENT PRICE WITHOUT. IT NOW APPEARS QUITE POSSIBLE THE 9-CENT PROJECTION WILL BE REALIZED.

5. A FURTHER IMPLICATION OF THE PRICE RECUPERATION AND THE STRONGER WORLD MARKET IS THAT THE INCIDENCE OF THE TARIFF-FEE IS BEING SHIFTED FORWARD TO THE CONSUMER RATHER THAN BACKWARD TO THE PRODUCER. IF THE EXPORTER WERE ABSORBING PART OF THE FEE, SPOT PRICES WOULD HAVE BEEN EXPECTED TO DROP OR AT LEAST REMAIN DEPRESSED. ACCORDINGLY, THE PROPOSAL THAT THE U.S. "REBATE" TO THE PRODUCER COUNTRIES THE INCREASED FEE MAKES NO SENSE--UNLESS ONE REALLY MEANS THAT THE U.S. CONSUMER SHOULD BE MAKING A RESOURCE TRANSFER  
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OR SUBSIDY PAYMENT TO FOREIGN SUGAR PRODUCERS.

6. AT AN 11-CENT WORLD PRICE FOR SUGAR THE ADDITIONAL TARIFF AND FEE ADOPTED IN NOVEMBER WILL NO LONGER BE NEEDED TO SUPPORT THE DOMESTIC PRICE OF 13.5 CENTS (PRE-NOVEMBER DUTY AND SHIPPING ADD 2.5 CENTS TO THE LANDED COST OF IMPORTED SUGAR). WHEN THE ISA ACHIEVES THAT PRICE, THE U.S. INTENDS TO REMOVE THE ADDITIONAL TARIFF AND FEE. A NUMBER OF SUGAR EXPERTS HAVE SPECULATED THAT THE SHIFTED RHYTHM OF U.S. IMPORTS WILL TEND TO DELAY, POSSIBLY UNTIL THE END OF 1978, THE TIME WHEN AN 11-CENT PRICE WILL BE REACHED. OTHER EXPERTS SUGGEST THAT PRICE RECUPERATION WILL BE MUCH MORE RAPID AND COULD REACH 11 CENTS BY NEXT SUMMER. THESE VIEWS ARE BASED ON MARKET PSYCHOLOGY RATHER THAN SUPPLY AND DEMAND AND CAN BE NEITHER PROVEN NOR DISPROVEN--EVEN AFTER THE FACT. PRICES CAN

ALSO BE AFFECTED BY NUMEROUS OTHER FACTORS SUCH AS THE SIZE OF THE BEET CROP IN EUROPE, TROPICAL STORMS IN THE CARIBBEAN, EVENTUAL EUROPEAN COMMUNITY ADHERENCE TO THE ISA, AND POSSIBLE PRODUCTION SHORTFALLS.

7. TOTAL LATIN AMERICAN SUGAR EXPORTS IN 1978 ARE EXPECTED TO BE ABOUT 4.5 MILLION TONS, OF WHICH 2.3 MILLION WILL BE TO THE UNITED STATES. TOTAL SUGAR EXPORT REVENUES SHOULD BE AROUND \$900 MILLION. FOR COMPARATIVE PURPOSES, WITHOUT THE ISA SUGAR REVENUES WOULD HAVE BEEN AROUND \$650 MILLION FOR EXPORTS OF 5 MILLION TONS.

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8. GSP BENEFICIARY COUNTRIES SHOULD, AT LEAST IN THEORY, BENEFIT FROM THE INCREASED TARIFF. THE PRICE THEY RECEIVE SHOULD RISE BY ROUGHLY THE .94-CENT TARIFF INCREASE. AT THE PRESENT TIME, HOWEVER, SUGAR IMPORTERS ARE UNCERTAIN ABOUT PURCHASING GSP SUGAR FROM MARCH ONWARD BECAUSE THEY ARE WORRIED THAT SOME ACTION MAY BE TAKEN TO REMOVE SUGAR FROM GSP. IF THIS UNCERTAINTY BECOMES PROLONGED (WHICH WE WOULD NOT EXPECT) GSP BENEFICIARIES COULD PARADOXICALLY LOSE SALES TO NON-BENEFICIARY COUNTRIES. VANCE

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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009